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TO RUEHC/SECSTATE WASHDC 6650
INFO RUEAWJB/DEPT OF JUSTICE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
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RUEHLMC/MILLENNIUM CHALLENGE CORP WASHINGTON DC
RUCPDO/DEPT OF COMMERCE WASHDC
RUEHKO/AMEMBASSY TOKYO 0950
RUEHBJ/AMEMBASSY BEIJING 4404
RUEHBY/AMEMBASSY CANBERRA 1364
RUEHUL/AMEMBASSY SEOUL 4243
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SIPDIS

STATE FOR U/S JEFFERY
STATE FOR EAP/MTS
MCC FOR AMBASSADOR DANILOVICH AND MORFORD
DEPT PASS USTR FOR AMBASSADOR SCHWAB
TREASURY FOR IA - BAUKOL
USAID FOR ANE/AA WARD

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SUBJECT: YOGYAKARTA: CHALLENGES, OPPORTUNITIES FOR DECENTRALIZATION

JAKARTA 00002874 001.2 OF 002

¶1. (SBU) Summary and Introduction: Yogyakarta's decentralization framework is robust, yet its implementation and results incomplete. Following major earthquake damage and economic decline in 2006, the Special Province of Yogyakarta is working to attract investment and improve the investment climate through one-stop business licensing centers, the Yogyakarta Business Center, and adequate infrastructure. The Yogyakarta Governor has established the Change Management and Innovation Center to improve public service delivery. These innovations have created notable models for decentralization and government support for economic growth; however, tangible benefits are slow to appear.

¶2. (U) We traveled to Yogyakarta on September 27-28 to meet with local government officials, civil society leaders, and university administrators and students. Local government meetings included the regional planning board (BAPEDA), the District Attorney's Office Special Crimes Unit, and the Yogyakarta Mayor's Office for Infrastructure. The Partnership for Governance Reform regional office set up a roundtable with the private and public ombudsmen as well as the head of the government's Change Management and Innovation Center. We engaged in public outreach events at the University of Gadjah Mada, Muhammadiyah University, Sanata Dharma University, Rotary Club, and the Center for Anti-Corruption Studies (PUKAT). (See septel for additional reporting on PUKAT, anti-corruption reform, and improving accountability in Yogyakarta.)
End Summary and Introduction.

Recovering from the Earthquake

¶3. (U) Divided into four districts and one city, Yogyakarta relies on small and medium-sized enterprises (SMEs) for 80-90% of its employment and an equal if not larger portion of its GDP, according to regional planning board officials. Furniture, silver, leather, and other crafts account for much of the SME economy, while dairy, hand tools, textiles, and light bulbs (specifically a GE factory)

account for the larger-sized enterprises in Yogyakarta.

14. (U) With a mix of regional pride and actual results, the people of Yogyakarta have recovered from the devastating May 2006 earthquake, which killed 5,700 people, injured over 37,000, and left over 1.5 million homeless. The disaster led to 3.7% economic decline and double-digit inflation in 2006. Local leaders conveyed a perception that earthquake relief had concluded as financial assistance is largely disbursed and many people were returning to their normal routine. We toured Yogyakarta villages with Rotary leaders to view earthquake damage and subsequent reconstruction efforts. Many reconstruction projects appeared to be completed. However, we saw severe earthquake damage in some areas as well as the continued use of emergency tents.

Right Reforms, Slow Output

15. (SBU) Yogyakarta provides a model for the speed and creativity of its governmental responses to providing services under decentralization; however, positive results for business development are still limited. Regional planning board officials highlighted the one-stop centers for business licenses and paperwork, the Yogyakarta Business Center, and the six regional centers for SMEs as examples of Yogyakarta's efforts to attract investment and improve the business climate. Civil society leaders pointed to the province's push to provide digital government services. In 2007, the Governor established the 60-person Change Management and Innovation Center to evaluate government performance, specifically public services. Despite these impressive innovations, ombudsmen officials said that it takes 240 days to start a business in Yogyakarta, significantly longer than the national average of 80-90 days.

16. (SBU) Infrastructure for business development is adequate. An infrastructure official in the regional planning office said that only ten percent of the roads were in poor condition. Public

JAKARTA 00002874 002.2 OF 002

transportation is old, but not an impediment to business development. Water supply is a contentious issue as rice farmers and fisheries compete for limited water supply. Only 40% of Yogyakarta residents receive water supplies from the state water company. Eighty percent of Yogyakarta residents receive electricity from state-owned electricity company PLN, second best for Central Java. While it could be improved, infrastructure is not the principal stumbling block for economic growth in Yogyakarta.

Decentralization: Many Regulations, More Challenges

17. (SBU) Although a special province in Indonesia, Yogyakarta has confronted new challenges since the start of Indonesia's ambitious decentralization. Civil society leaders said that the province-district relationship remains unclear. National regulation 38/2007 on sharing and assigning functions, roles and authority across levels of government and national regulation 41/2007 on the structure of regional government have yet to be fully implemented. Parliament is considering further revisions to Indonesia's decentralization Law 32/2004, which could further complicate matters. Overlapping jurisdictions and multiple laws continue to confuse and delay local government operation. Local business development is also hampered as the investment rules and licenses are unclear. As shown by the 2006 earthquake, disaster management is another issue not addressed adequately by current decentralization law and regulations. In addition, a 1960 Land Law needs to be updated.

Public Outreach Opportunities Abound in Yogya

18. (U) Yogya is Indonesia's university center, with over 120 universities. We met with the Dean and students of the Economics Faculty at Gadjah Mada University, academic home of Coordinating Minister for Economic Affairs Boediono and many top economists in Indonesia. In a public forum, we spoke with 120 economics students

about the importance of the US-Indonesian relationship, particularly economic reform. We fielded questions ranging from US involvement in the 1965 coup to the prospects of implementing the UN/World Bank-sponsored Stolen Asset Recovery (StAR) initiative in Indonesia.

We also visited Muhammadiyah University-Yogyakarta and met with the Rector before participating in a panel discussion on corporate governance. We spoke with 120 students, highlighting key issues for US-Indonesian cooperation, particularly anti-corruption reform. Muhammadiyah professor Masyhuid Muqorobin stated that corruption contradicts Islamic values and argued that the concept of trusteeship (amanah) in Islam should guide Indonesian leaders in combating corruption.

¶9. (U) We later met with Rotary Club leaders, including the Rotary Indonesia President and President Elect. With over 100 clubs in Indonesia, Rotary has assisted with Yogyakarta earthquake relief and implements other community service projects throughout Indonesia. Returning to Gadjah Mada, we met with the Center for Anti-Corruption Studies (PUKAT), an NGO established in December 2006 to work on various public policy efforts regarding anti-corruption in Indonesia. PUKAT is designed to be a model organization for other universities interested in working on anti-corruption reform. See septel for PUKAT meeting points.

¶10. (U) We met with the Rector, Vice Rector, an English professor, and three students at Sanata Dharma University, a small private university in Yogyakarta. The discussion centered on exchange projects, specifically the university's goal to establish an annual exchange program with an American university. We answered questions ranging from student visa applications to the social life of young Americans.

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